



# American Addiction Centers



**INVESTOR PRESENTATION**

**MAY 2017**

# IMPORTANT PRESENTATION INFORMATION

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## **Notice to Investors**

We use market data and industry forecasts and projections throughout this presentation, including data from publicly available information and industry publications. These sources generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of the information are not guaranteed. The forecasts and projections are based on industry surveys and the preparers' experience in the industry, and there can be no assurance that any of the forecasts or projections will be achieved. We believe that the surveys and market research others have performed are reliable, but we have not independently investigated or verified this information. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and uncertainties as the other forward-looking statements contained in this presentation.

## **Forward-Looking Statements**

Some of the statements made in this presentation constitute forward-looking statements within the meaning of federal securities laws. Forward-looking statements reflect our current views with respect to future events and performance. In some cases you can identify forward-looking statements by terminology such as "may," "might," "will," "should," "could" or the negative thereof. Generally, the words "anticipate," "believe," "continues," "expect," "intend," "estimate," "project," "plan" and similar expressions identify forward-looking statements. In particular, statements about our pipeline, industry growth opportunities, disclosure of key performance indicators, business growth strategy and financial guidance in this presentation are forward-looking statements.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks, uncertainties and other factors, many of which are outside of our control, which could cause our actual results, performance or achievements to differ materially from any results, performance or achievements expressed or implied by such forward-looking statements. For additional discussion of risks, uncertainties and other factors, see the section titled "Risk Factors" in our Annual Report on Form 10-K and other filings with the Securities and Exchange Commission (the "SEC").

Risks, uncertainties and other factors include, without limitation: (i) our inability to operate our facilities; (ii) our reliance on our sales and marketing program to continuously attract and enroll clients; (iii) a reduction in reimbursement rates by certain third-party payors for inpatient and outpatient services and point of care and definitive lab testing; (iv) our failure to successfully achieve growth through acquisitions and de novo expansions; (v) uncertainties regarding the timing of the closing of acquisitions; (vi) our failure to achieve anticipated financial results from prior acquisitions; (vii) the possibility that a governmental entity may prohibit, delay or refuse to grant approval for the consummation of the acquisitions; (viii) a disruption in our ability to perform definitive drug testing services; (ix) maintaining compliance with applicable regulatory authorities, licensure and permits to operate our facilities and lab; (x) a disruption in our business and reputation and potential economic consequences with the civil securities claims brought by shareholders; (xi) our inability to agree on conversion and other terms for the balance of convertible debt; (xii) our inability to meet our covenants in our loan documents; (xiii) our inability to obtain senior lender consent to exceed the current \$50 million limit in unsecured subordinated debt; (xiv) our inability to integrate newly acquired facilities; and (xv) general economic conditions, as well as other risks discussed in the "Risk Factors" section of the Company's Annual Report on Form 10-K and other filings with the SEC.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. These risks and uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. These forward-looking statements are made only as of the date of this presentation. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments.



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# PRESENTERS



## Michael T. Cartwright

*Chairman*

*(since 2011)*

*Chief Executive Officer*

*(since 2013)*

*michael@contactaac.com*

- Founder and CEO of **Foundations Recovery Network**
- At Foundations, opened notable treatment facilities including **the Canyon** in Malibu, **La Paloma** in Memphis and **Michael's House** in Palm Springs
- Started **Moments of Change & Lifestyle Intervention**, two of the leading national industry conferences
- Author of **Believable Hope**
- **20+ years of management experience**



## Kirk R. Manz

*Chief Financial Officer*

*(since 2011)*

*kmanz@contactaac.com*

- Founder and Managing Member of **Private Capital Securities**, a boutique investment banking firm
- Former Vice President at **Piper Jaffray** and Fixed Income Specialist with **Stephens Inc.**
- Co-founder and CEO of four communications companies including **Igaea**, an international VoIP Company
- **23+ years management experience**



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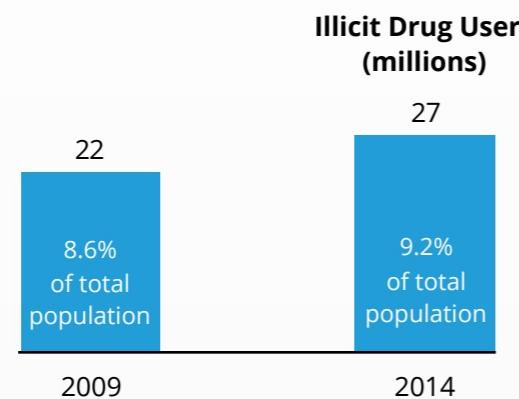
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## INDUSTRY PRIMER

# SIGNIFICANT UNMET NEED

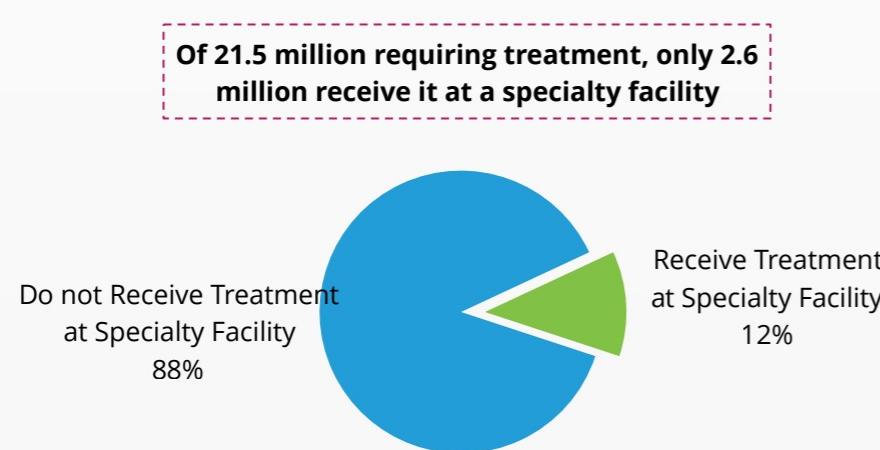
27 million Americans are illicit drug users... <sup>(1)</sup>



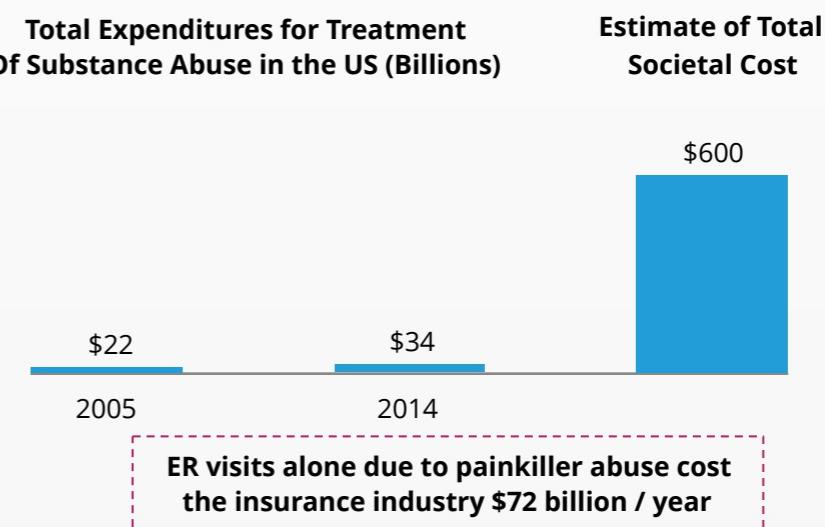
...and ~21.5 million of them require treatment <sup>(1)</sup>



Substantial unmet need for treatment... <sup>(1)</sup>



...creating significant cost to society <sup>(1)</sup>



<sup>(1)</sup> Sources: 2014 National Survey on Drug Use and Health, US Dept. of Health and Human Science, CDC, National Institute on Drug Abuse, National Comorbidity Survey.

**105 PEOPLE DIE AND ANOTHER 6,748 ARE TREATED IN EMERGENCY DEPARTMENTS EVERY DAY AS A RESULT OF DRUG OVERDOSE OR FOR THE MISUSE OR ABUSE OF DRUGS <sup>(1)</sup>**



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# CURRENT ADDICTION HEADLINES

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Nov 17, 2016

**Surgeon general: 1 in 7 in USA will face substance addiction**

The Washington Post

Aug 29, 2016

**'This is unprecedented': 174 heroin overdoses in 6 days in Cincinnati**

The New York Times

Feb 2, 2017

**Amid Opioid Overdoses, Ohio Coroner's Office Runs Out of Room for Bodies**



Feb 17, 2017

**Nearly 2,000 died from opioid overdoses in Mass. last year**

THE  
WALL STREET  
JOURNAL

Aug 9, 2016

**Heroin Fuels Surge in New York City Overdoses**



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# TYPES OF TREATMENT SERVICES

## Residential Inpatient Treatment



Hospital



Residential Treatment Center

## Outpatient Treatment



Sober Living

(Supportive Housing for Outpatient)



Outpatient Center

High Acuity

Low Acuity

## Diagnostic Services



Laboratory



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# INPATIENT VERSUS OUTPATIENT

## Inpatient

Residential

24 hour supervision

Programs most commonly involve substance abuse counseling, relapse prevention, cognitive-behavioral therapy, 12-step facilitation, and motivational interviewing

Focus on individual treatment plan using multiple therapeutic approaches which are customized on a case-by-case basis

Medical monitoring of detoxification offered

Recommended for people who lack sufficient motivation or social supports to stay abstinent on their own



## Outpatient

Stay at home or sober living

Requires minimum daily and weekly attendance

Program involves individual and group counseling integrated with forms of behavioral treatments

Focus on group work includes psycho-educational, skills development, support, and interpersonal process groups

Medical monitoring of detoxification outsourced to hospitals or detox clinics

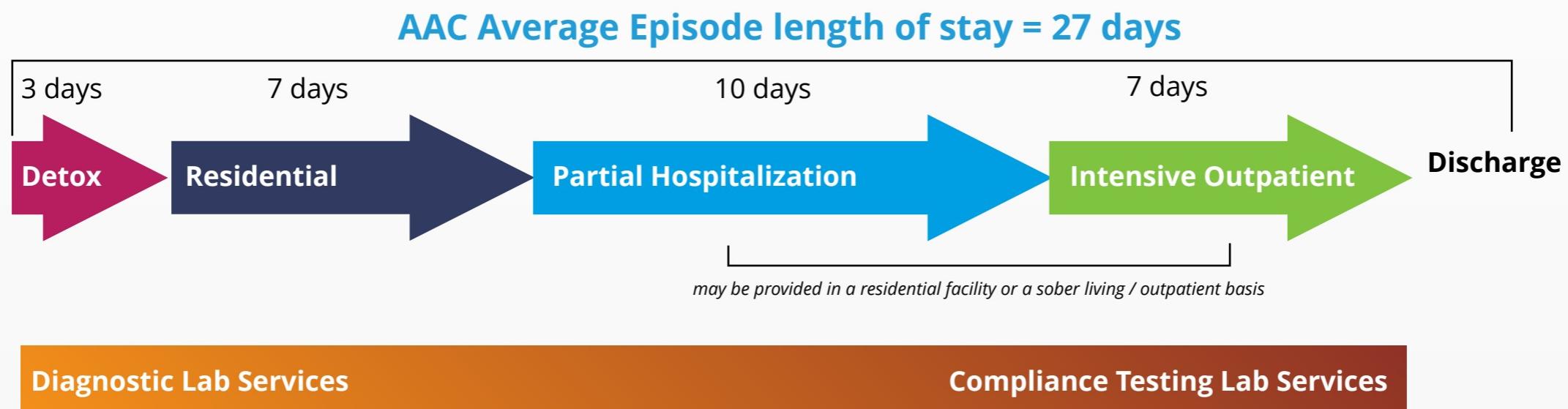
Recommended for people who do not need full-time supervision and have some available supports but benefit from structure



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# LEVELS OF CARE OVERVIEW

- A typical client will have an average episode length of stay of 27 days
- During the 27 day treatment period, a client will “step down” from higher acuity levels of care (e.g. detox) to lower levels of care (e.g. intensive outpatient); medical, clinical and programming services will vary depending on level of care
- Clients in lower levels of care (e.g. PHP and IOP) may be housed in sober living with services provided at a nearby outpatient center



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# FAVORABLE LEGISLATIVE TAILWINDS

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## Mental Health and Addiction Equity Act of 2008 ("Parity Act")

- Constructed to eliminate discriminatory insurance practices by addressing treatment and financial limits, levels of care, scope of service, non-quantitative treatment levels, etc.
    - All required to be covered at parity with general medicine coverage
  - Strengthened mental health / substance abuse coverage to additional 30.4mm through new mandates for service
- 

## Affordable Care Act of 2010 ("ACA")

- Coverage expansion to currently uninsured
    - Addresses significant portion of "treatment gap" resulting from lack of coverage for individuals in need of treatment
  - Expanded Parity Act to also apply to individual health insurance coverage
  - Indirectly further expands Parity Act to apply to small group coverage
- 

## 21st Century Cures Act ("Cures Act")

- Strengthens mental health parity regulation
- Creates new Assistant Secretary for Mental Health and Substance Use
- \$1 billion in grants to states to supplement opioid abuse prevention and treatment activities
- \$485 million in grant funding to all 50 states

**STRONG BI-PARTISAN SUPPORT FOR EXPANDED PAYOR COVERAGE AND GOVERNMENT FUNDING FOR ADDICTION TREATMENT**



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# AAC: AT A GLANCE

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## > AAC Holdings, Inc. ("AAC") is the parent of American Addiction Centers, Inc.

- Operates 12 residential alcohol and drug addiction treatment facilities in California, Florida, Louisiana, Mississippi, Nevada, New Jersey and Texas
- Operates 18 standalone outpatient centers in Nevada, Louisiana, Mississippi, New Jersey, Rhode Island and Texas
- Over 1,300 detoxification, residential and sober living beds
- 2016 revenue of approximately \$280 million up 32% from \$212 million revenue in 2015
- Approximately 90% of reimbursements from commercial payors
- Approximately 2,000 employees as of 3/31/17
- Owns and operates 2 industry-leading laboratories providing toxicology, clinical diagnostic and genomics services
- Invested management and Board, which own majority of outstanding stock
- Headquartered in Brentwood, Tennessee

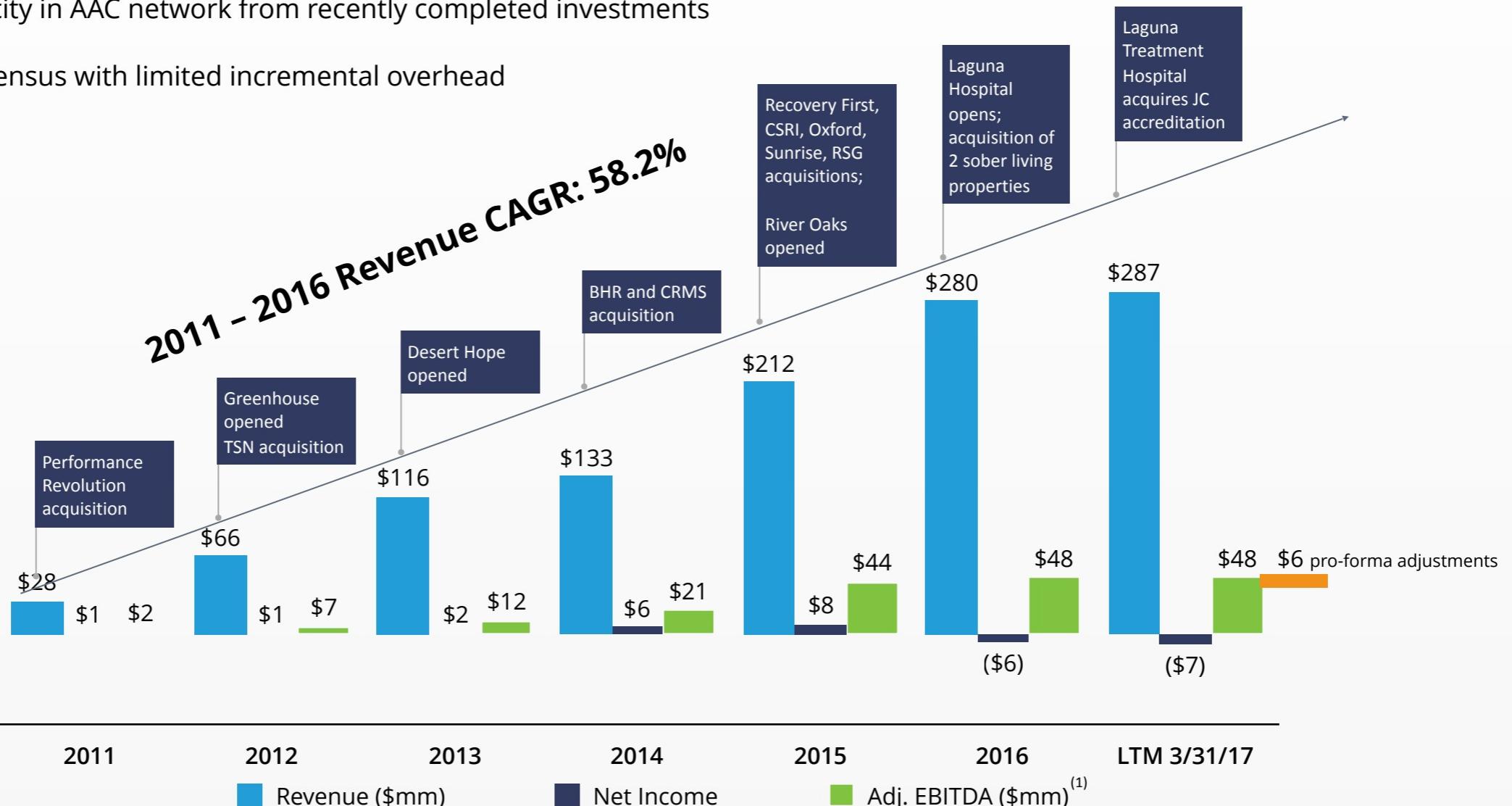
**AAC IS A LEADING PROVIDER OF INPATIENT DRUG AND ALCOHOL ADDICTION TREATMENT SERVICES  
IN THE BEHAVIORAL HEALTH SECTOR**



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# TIMELINE OF AAC'S SUCCESS

- AAC's strong organic track record and disciplined approach to de novos and acquisitions have driven exceptional growth
- Significant capacity in AAC network from recently completed investments
- Ability to scale census with limited incremental overhead



**Bed count**

124                    338                    431                    493                    897                    1,342                    1,370

(1) Adjusted EBITDA represents a non-GAAP financial measure. For the reconciliation to net income (loss), the corresponding GAAP financial measure, see the Appendix.



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# MARKET FOCUS AND CLINICAL EXCELLENCE

- Highly fragmented market consisting of small providers with limited access to capital and little focus on outcomes and clinical quality
- AAC combines exceptional clinical care with premium facilities to provide effective treatment solutions for those suffering from addiction and co-occurring mental health disorders

## Types of substance abuse treatment providers

Type	Other public	Medicaid / Medicare	In network	Out of network	Private pay
Facility Rating	★	★★	★★★	★★★★	★★★★★
Estimated ADR	\$100	\$200	\$400	\$800	\$1,200
Marketing Focus	Local	Local	Statewide	National	Global
Typical Marketing Cost	0%	0-5%	5-10%	15-20%	20-25%
Amenities	None	None	Minimal	Moderate	Extensive
Target Margins	Breakeven	10%	20-25%	20-25%	25-30%

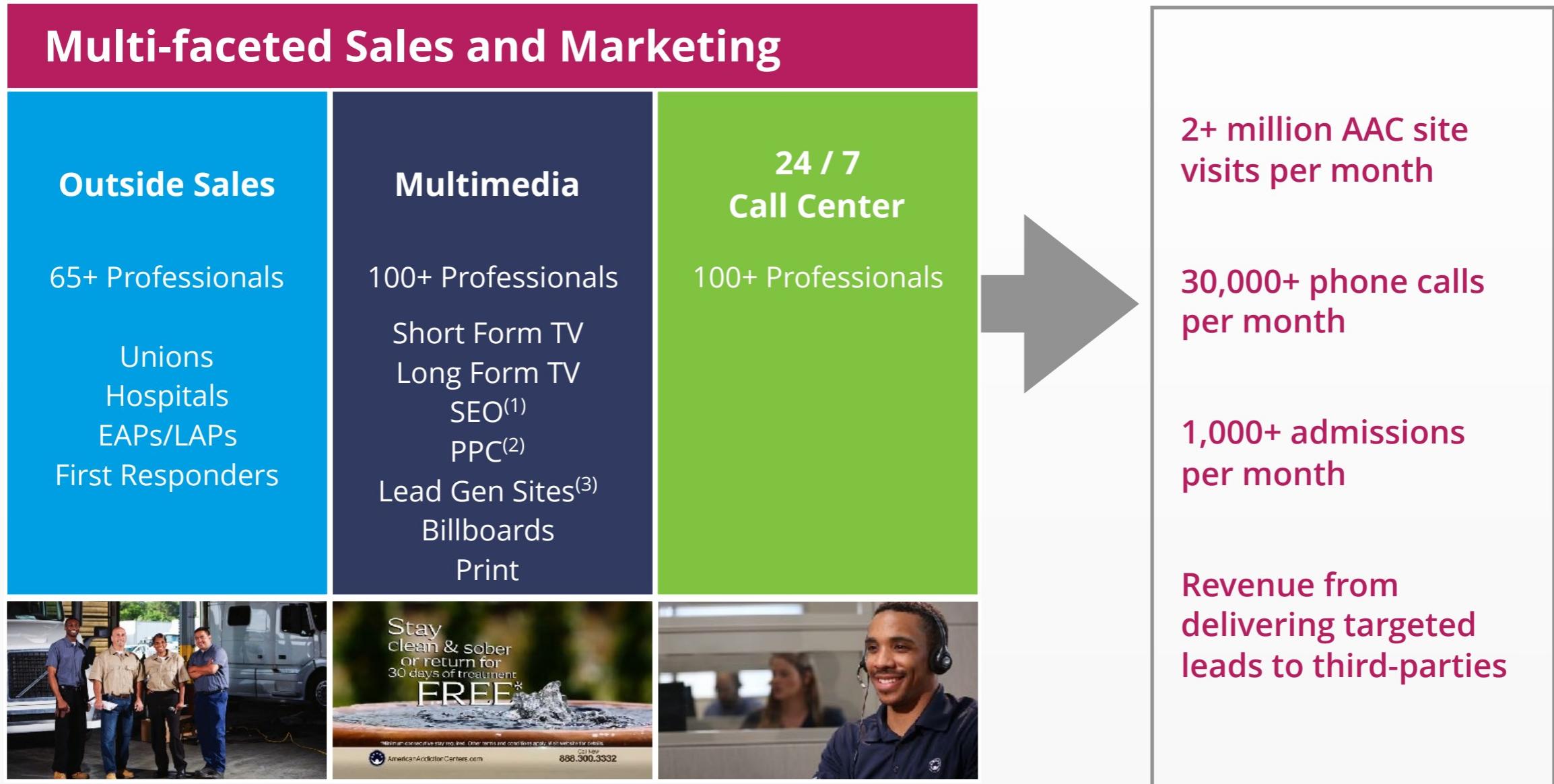
## AAC's differentiated service offering

	<b>Effective program</b>	<ul style="list-style-type: none"> <li>Research-based</li> <li>Structured curriculum</li> <li>Tailored treatment</li> </ul>
	<b>Experienced staff</b>	<ul style="list-style-type: none"> <li>Medical</li> <li>Clinical</li> <li>Utilization review</li> </ul>
	<b>Premium facilities</b>	<ul style="list-style-type: none"> <li>Beautiful buildings</li> <li>Amenities</li> <li>Desirable locations</li> </ul>
	<b>Exceptional service</b>	<ul style="list-style-type: none"> <li>Delicious, healthy food</li> <li>Meticulous housekeeping</li> <li>Courteous interaction</li> </ul>



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# BEST-IN-CLASS SALES AND MARKETING ENGINE



<sup>(1)</sup> Search Engine Optimization   <sup>(2)</sup> Pay Per Click   <sup>(3)</sup> Lead Generation Web Sites

**AAC'S MARKETING KNOWLEDGE AND INFRASTRUCTURE CANNOT BE REPLICATED  
WITHOUT SUBSTANTIAL CAPITAL AND TIME; SIGNIFICANT COMPETITIVE ADVANTAGE**

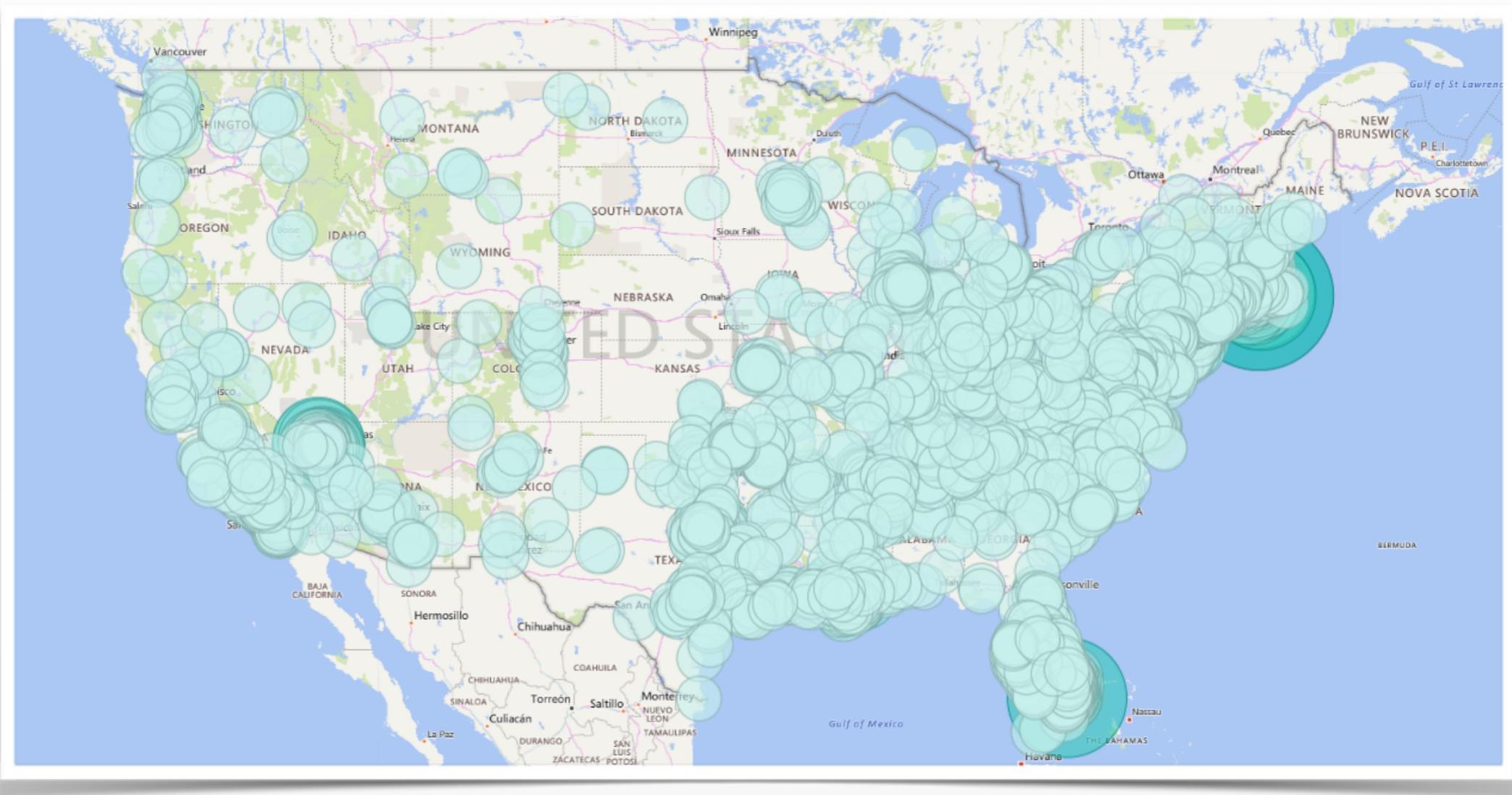


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# STRONG, NATIONAL DEMAND FOR SERVICES

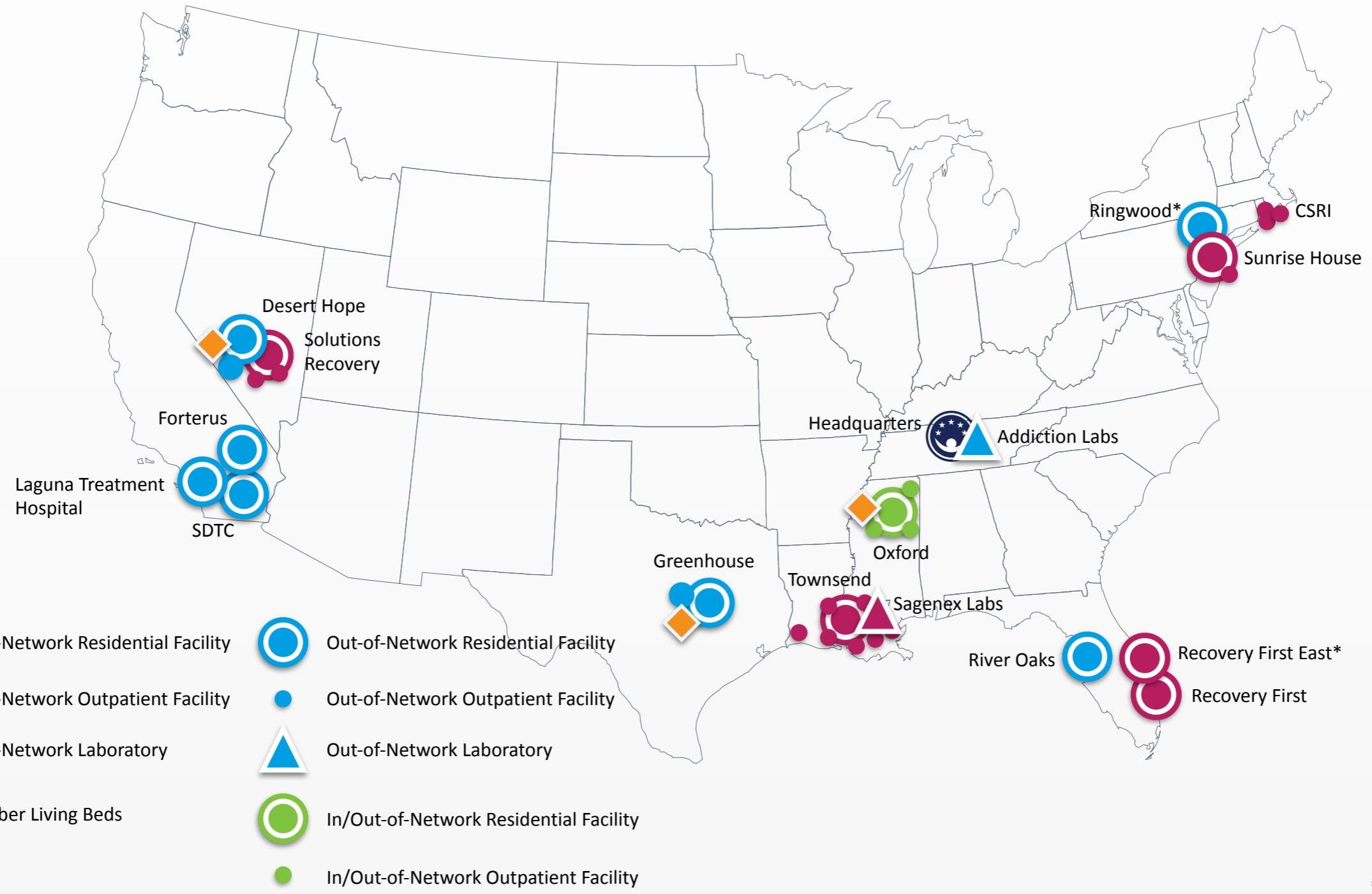
- The majority of AAC patients travel to an AAC facility via airplane
- Unique national service offering offers strong insulation against traditional local healthcare market risks

**Map of over 30,000 AAC alumni**



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# GEOGRAPHIC FOOTPRINT



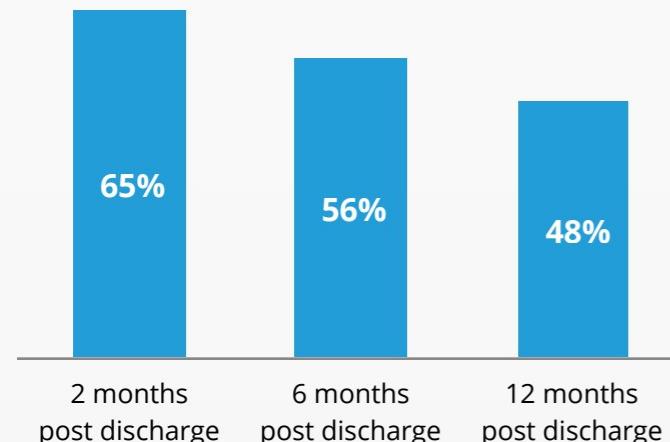
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# PROVEN IMPROVEMENT IN PATIENT OUTCOMES

- Few providers track outcomes; industry lacks consistent quality metrics and related data
- Similar to diabetes, addiction is a chronic disease that can be managed but not cured
- Abstinence is the preferred outcome, but relapse management is a critical component to treatment

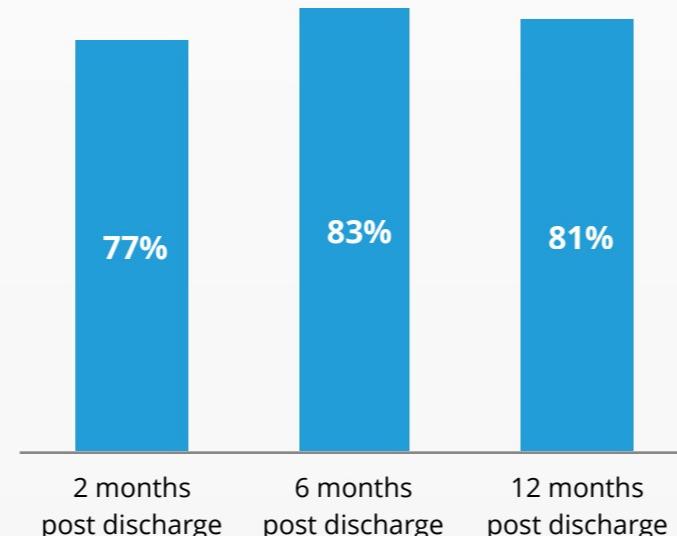
## Abstinence rate after AAC treatment

(% abstinence rate)



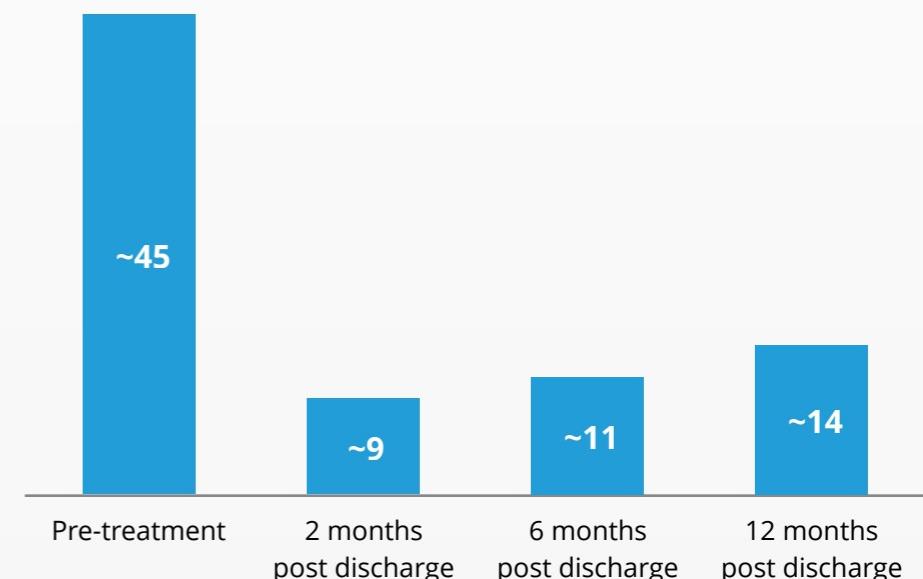
## Alumni who used, used less frequently...

(% of users reporting lower frequency usage)



## ...and for fewer days on average

(Average number of days of use)



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# LABORATORY AND DIAGNOSTICS CAPABILITIES

## > Competitive advantages

- Faster turn around
- One laboratory for all clinical needs:
  - Toxicology
  - General Clinical Testing
    - hematology, chemistry, infectious disease, hormone, urinalysis
  - Pharmacogenetics
- Addiction only focus
- Superior test reporting and EMR integration



- 2 lab locations: Nashville, New Orleans
- 16 liquid chromatography mass spectrometry machines (LC-MS) - toxicology  
3 enzymatic immunoassay machines (EIA) - toxicology, general clinical testing  
1 polymerase chain reaction machine (PCR) - DNA

## > 3rd party sales now online; a primary focus of management team

## > 2017 standalone diagnostic revenue estimated \$50MM\*

## > Shift away from low complexity, point-of-care testing; focus on laboratory-based, high-complexity testing

\* Includes 3rd Party



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# EMPLOYEES AND OPERATIONS

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- AAC employs approximately 2,000 people, including 490 corporate employees
- The typical facility is staffed with broad range of employees, including administrative, clinical, operational and housekeeping

**Example Staffing: 130 bed facility  
(1.5X staff to client ratio)**

Behavioral Health Technician	30
Licensed Vocational Nurses	30
Therapists	15
Registered Nurses / Nurse Liaisons	14
Facility CEO	1
Medical Director	1
Clinical Director	1
Director of Nursing	1
Director of Operations	1
Other	60
<b>TOTAL FTEs</b>	<b>154</b>

- Employees have opportunity to participate in AAC's stock purchase plan; AAC "Stars" program rewards top performers with material stock grants
- While employees at Sunrise House voted to join a labor union<sup>(1)</sup> in 2016, no other AAC facility has union representation

<sup>(1)</sup> Union labor contract still pending.



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# COMPLIANCE PROGRAM

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- > AAC's compliance program reviews regulatory compliance procedures and policies across its facilities
  - Executive management is responsible for oversight and operation of the compliance program
  - Periodic and comprehensive training programs to all personnel
- > All AAC treatment facilities are licensed under applicable state laws and accredited by the primary accrediting bodies in the industry
  - All treatment facilities have obtained or in process of obtaining accreditation from CARF and/or The Joint Commission
  - Both labs hold CLIA certificates of accreditation, certifying them for complex testing, are accredited by COLA and participate in the CAP proficiency program
- > Sentinel events unfortunately occur in the substance abuse treatment industry
  - AAC's sentinel event rate is approximately 10% of the industry average <sup>(1)</sup>

<sup>(1)</sup> According to SAMHSA, during 2010 and 2011, deaths occurred while in treatment at a rate of one death for every 422 client discharges. AAC experienced 1 death per 4,252 client discharges from 2011 - 2015.



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# RECENT EXPENSE REDUCTION INITIATIVES

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## > **Work Force Reduction - approximately \$8.6MM in expected annualized savings**

- 5% work force reduction completed in February 2017
- 108 positions eliminated across the Company
- Expected \$8.6MM of annualized savings (\$8.2MM of the \$8.6MM will be recognized in fiscal year 2017)
- Positions eliminated included:
  - Non-essential positions at the corporate office
  - Achievement of synergies at recently acquired facilities (e.g., Solutions, Townsend, and Sunrise House)
  - Reductions to align staffing levels with occupancy



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# RECENT DEVELOPMENTS AND COMPANY UPDATES

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## > Laguna Joint Commission accreditation on February 14th

- AAC benefitting from 50%+ increase in census in first 90 days

## > Oxford expansion of 48 residential and detox beds

- Represents \$7.5 million annual revenue and \$1.5 million AEBITDA opportunity (85% occupancy @ \$500 ADR and 20% net margin)

## > New Orleans East Hospital progress

- 36 leased hospital beds pending licensure

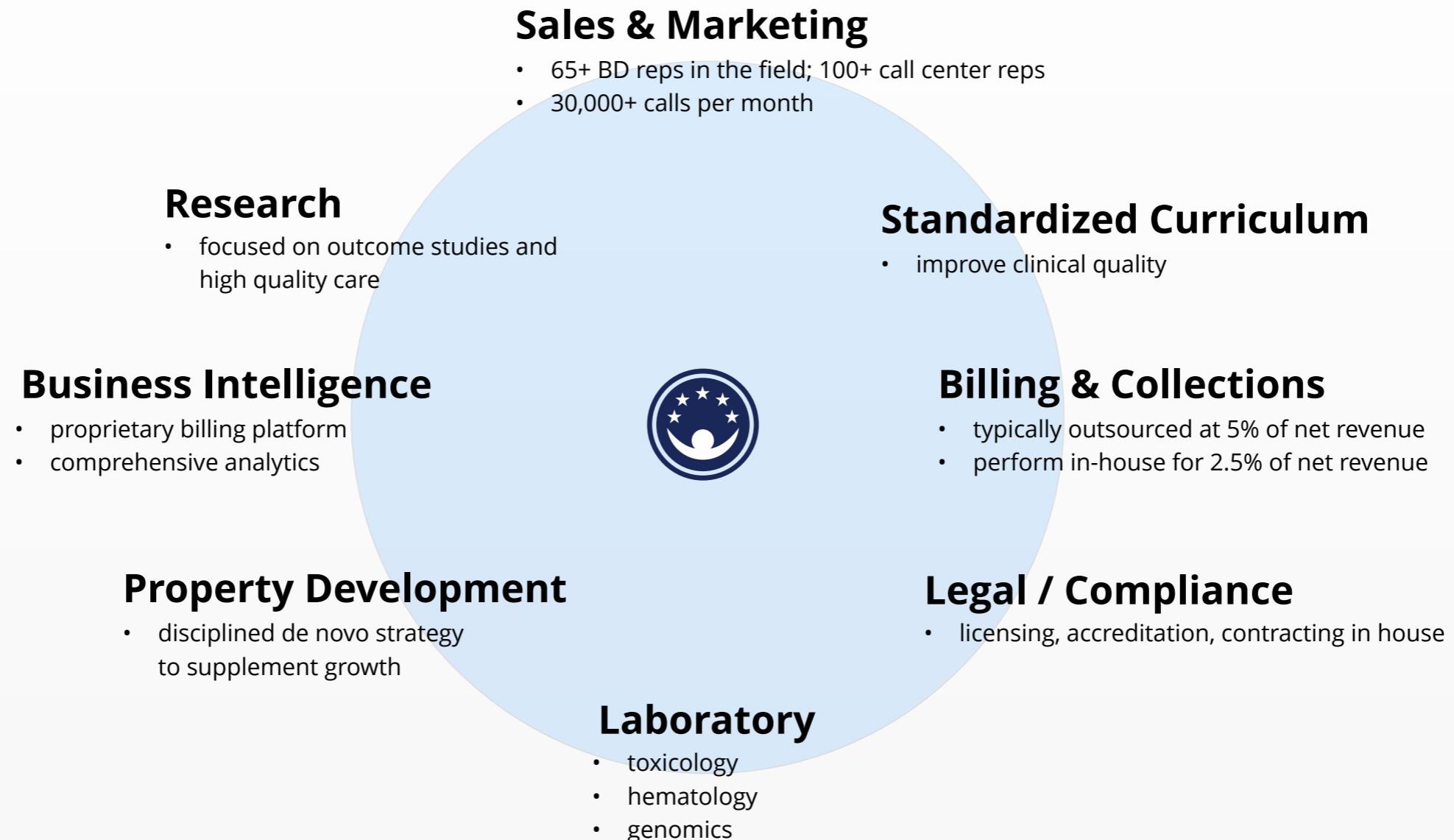
## > Pending consolidation of Southern Florida operations (Summer 2017)

- Consolidation of Recovery First West Palm and Recovery First will provide more efficient operations and stronger financial performance
  - AAC has assumed the operating leases and assets of the former Recovery Place located in Ft. Lauderdale
  - Clients and staff will transition from Recovery First West Palm to new Ft. Lauderdale location by July 1st
  - Represents a net pick up of 19 in-network beds



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# THE AAC DIFFERENCE



AAC'S COMPREHENSIVE PLATFORM LEADS THE INDUSTRY



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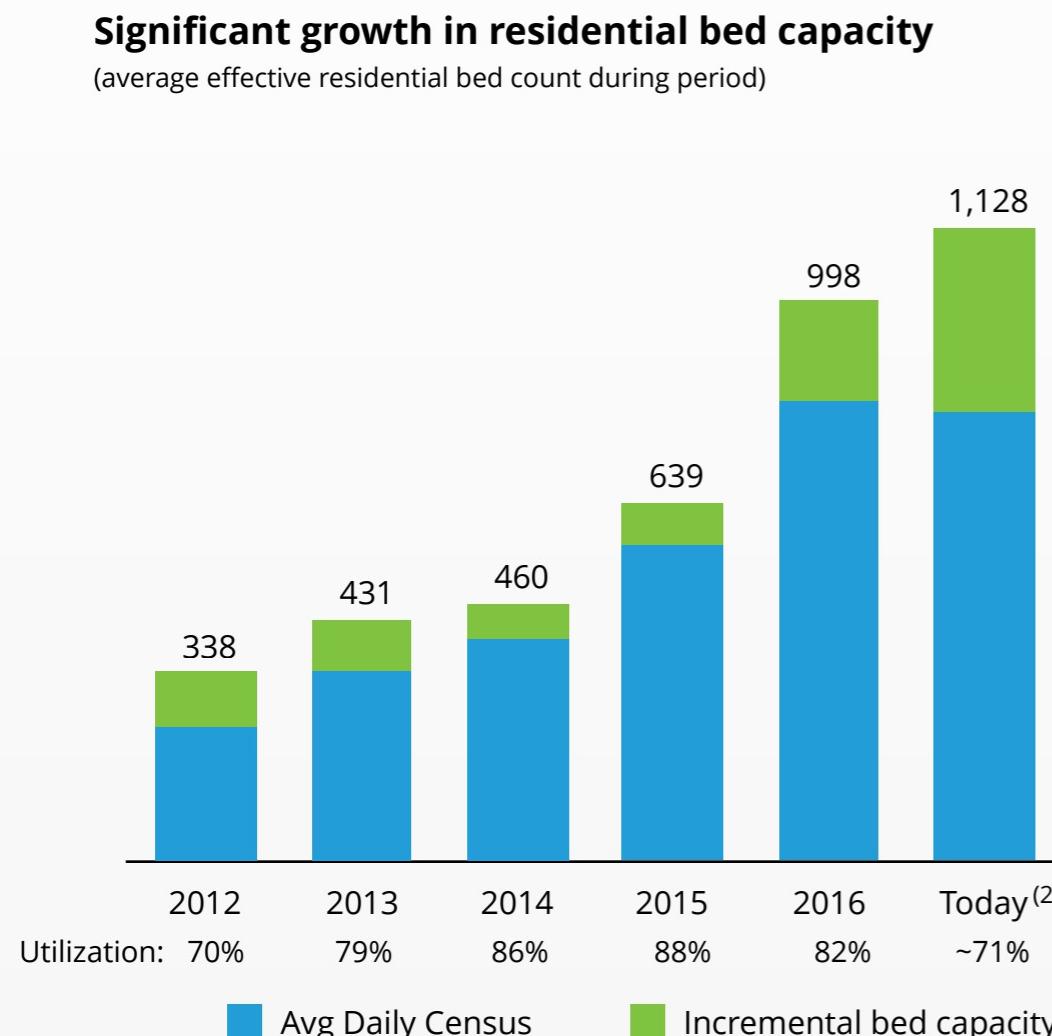


GREENHOUSE

## FINANCIAL UPDATE

# EMBEDDED GROWTH FROM RECENT INVESTMENTS

- Invested \$195mm since 2015 to dramatically improve AAC's platform
- Filling existing beds to 90% utilization would lead to ~\$56mm of incremental revenue



## Revenue growth opportunity

Current Residential Capacity	1,128				
Utilization Rate	75%	80%	85%	90%	
Census at Utilization Rate	846	902	959	1015	
Q1 2017 Census	802	802	802	802	
Census Increase	44	100	157	213	
Additional Mo. Revenue <sup>(1)</sup>	\$968,000	\$2,208,800	\$3,449,600	\$4,690,400	
Additional Annual Revenue	\$11,616,000	\$26,505,600	\$41,395,200	\$56,284,800	

(1) Analysis assumes \$22,000 in additional revenue per increase in average census.

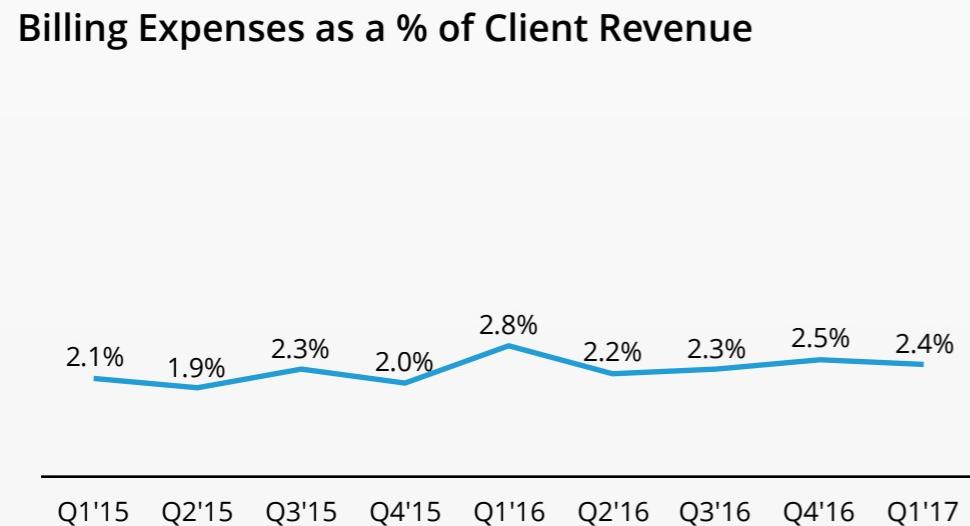
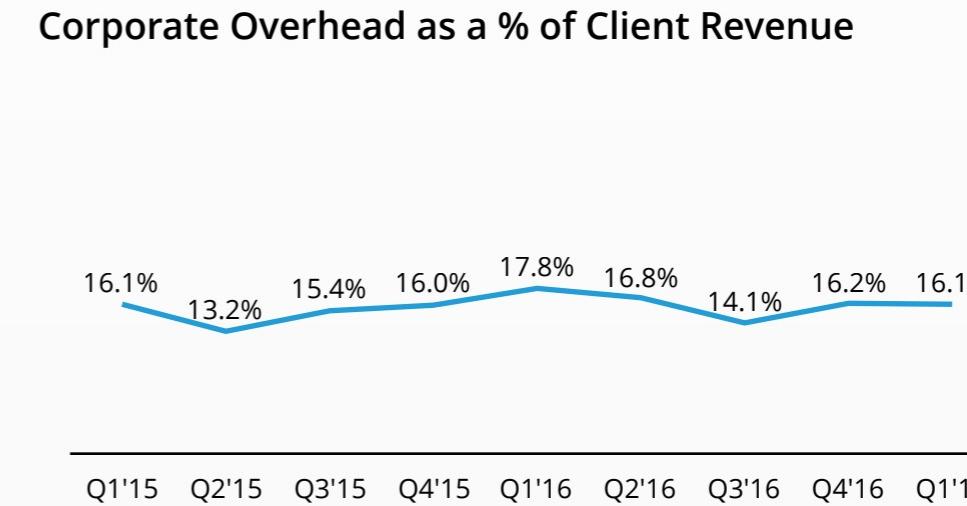
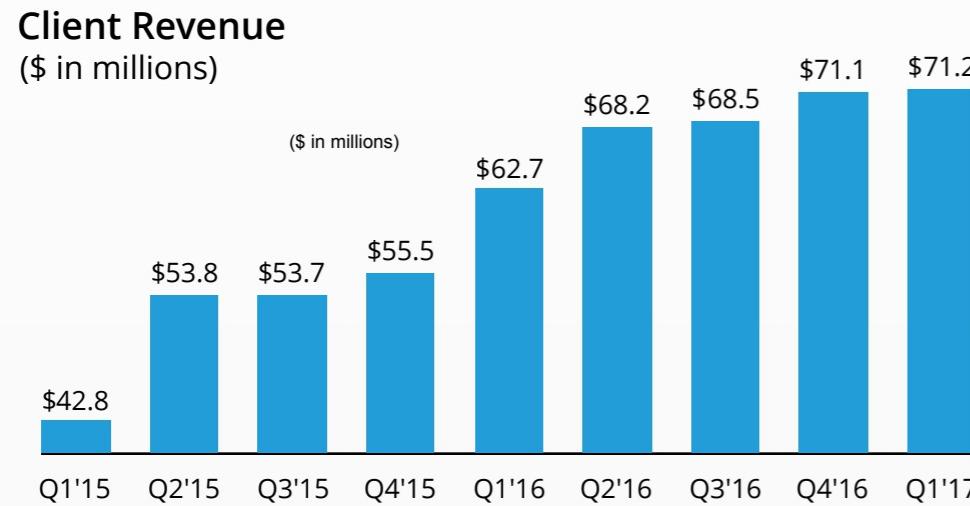
(2) Residential bed count as of 3/31/17 and average daily census for Q1 2017.



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# HIGH GROWTH PLATFORM WITH OPERATING LEVERAGE

- Corporate overhead has remained relatively flat as a % of client revenue - *opportunity to improve margins by reducing expenses*
- Billing expenses have remained relatively flat at less than 2.5% - *expected to remain flat as % of revenue going forward*
- Customer acquisition costs have dramatically decreased - *potential for additional improvement with more placement options*

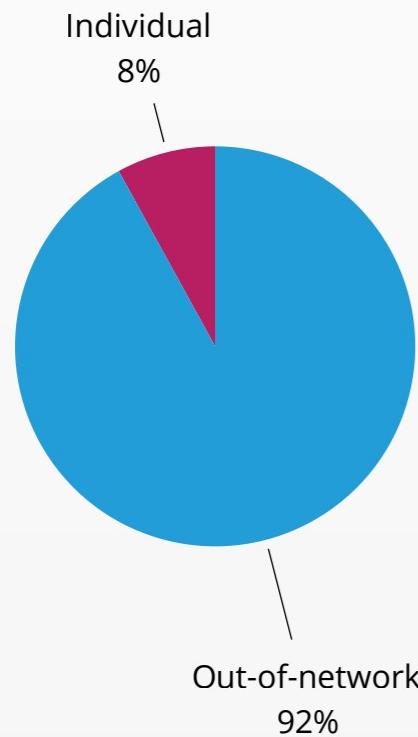


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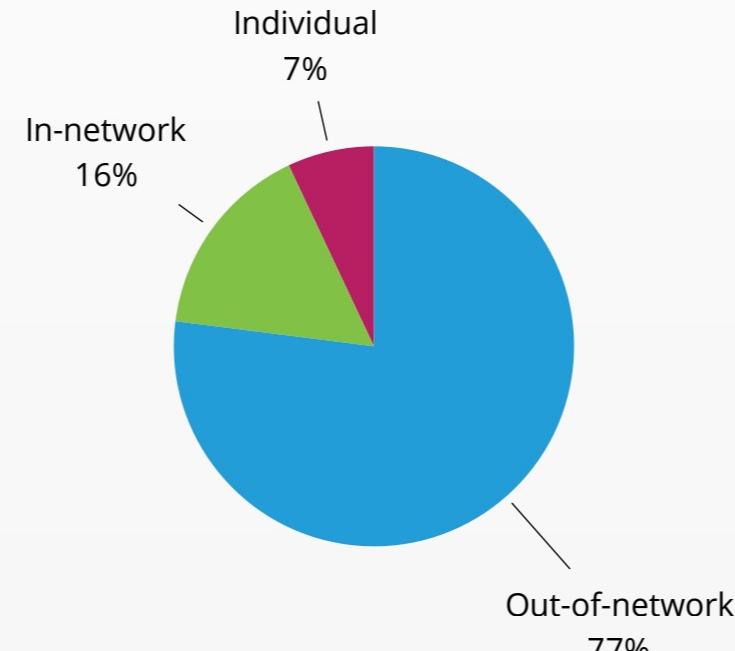
# DIVERSIFIED PAYOR BASE REIMBURSEMENT RISK

- When AAC went public (10/2/14), reimbursements were almost entirely Out-of-Network commercial reimbursements
  - In two years, AAC has diversified its payor mix to 77% Out-of-Network, 16% In-Network, 7% individuals
- Objective is to further diversify payor mix over three years
  - Evaluating Medicare at hospital sites (Laguna, Townsend) and Medicaid at its in-network outpatient sites where government rates are comparable to existing commercial rates
- For FY2016, no single payor accounted for more than 11% of revenue reimbursements

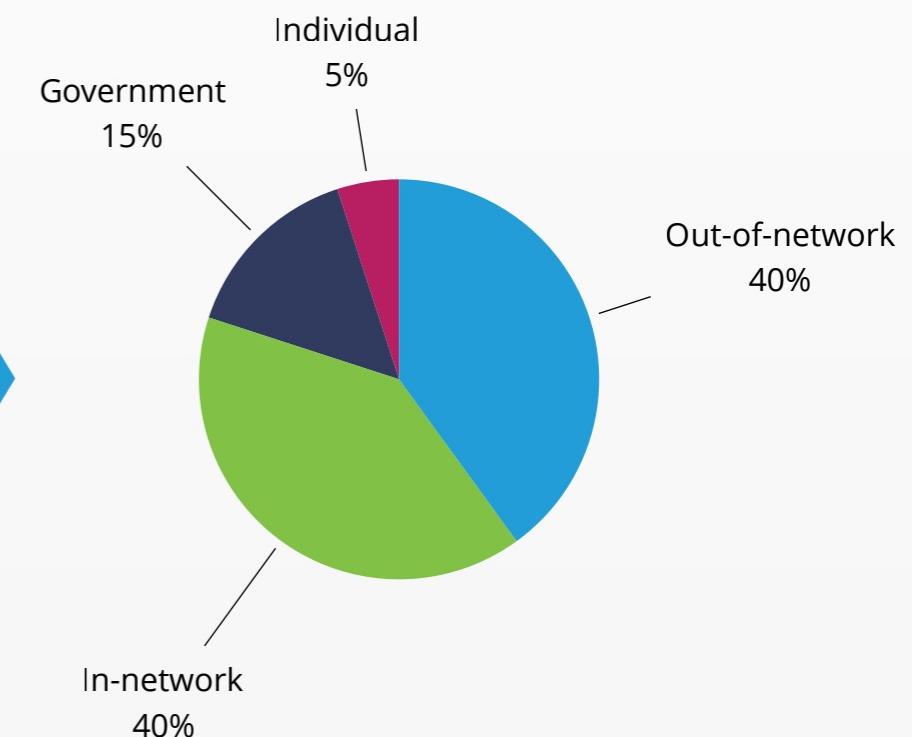
Payor mix at IPO (10/2/14)



Payor mix on 12/31/16



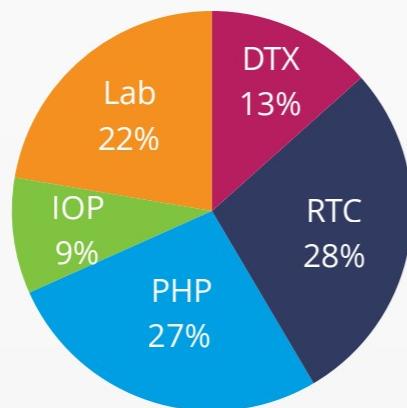
Target Payor mix (12/31/19)



# RESIDENTIAL CLIENT ECONOMICS

<b>Level of Care</b>	<b>"DTX"</b>	<b>"RTC"</b>	<b>"PHP"</b>	<b>"IOP"</b>	<b>Total</b>
AAC Avg. Days Authorized	3	7	10	7	27
AAC Avg. Reimbursement	\$1,000	\$900	\$600	\$300	\$17,400
Diagnostic / Compliance Lab Services					\$5,000
<b>AAC Avg. Revenue Per Client</b>					<b>\$22,000+</b>

## Service % of Revenue



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# VALUABLE REAL ESTATE & SIGNIFICANT COLLATERAL

- Gross real estate cost basis of approximately \$115mm (pro forma for \$20mm planned sale/leasebacks)
- Accounts receivables, net of allowances, of \$94mm as of 3/31/17

Real Estate Cost Basis	Grand Total
Laguna	\$ 20.8
River Oaks	\$ 20.0
Greenhouse	\$ 19.6
Oxford	\$ 17.7
Desert Hope	\$ 14.8
Ringwood	\$ 12.0
Sunrise House	\$ 7.6
Recovery First	\$ 1.4
Total Real Estate Collateral Cost Basis	\$ 113.9
Accounts Receivables, Net of Allowances	\$ 94.0
<b>Total Real Estate and Receivables Collateral</b>	<b>\$ 207.9</b>



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# DE NOVO ANALYSIS: RIVER OAKS, FIRST FULL YEAR

Total Investment	\$22.0MM
Total Beds	162
Cost Per Bed	\$130K
2016 facility ADR (no drug testing)	\$684
2016 revenue @ 73% occupancy	\$32.1mm
Contribution margin @ 56%	\$18.0mm
Net AEBITDA (after corp overhead)	\$5.1mm
Comparable acquisition multiple	4.3x



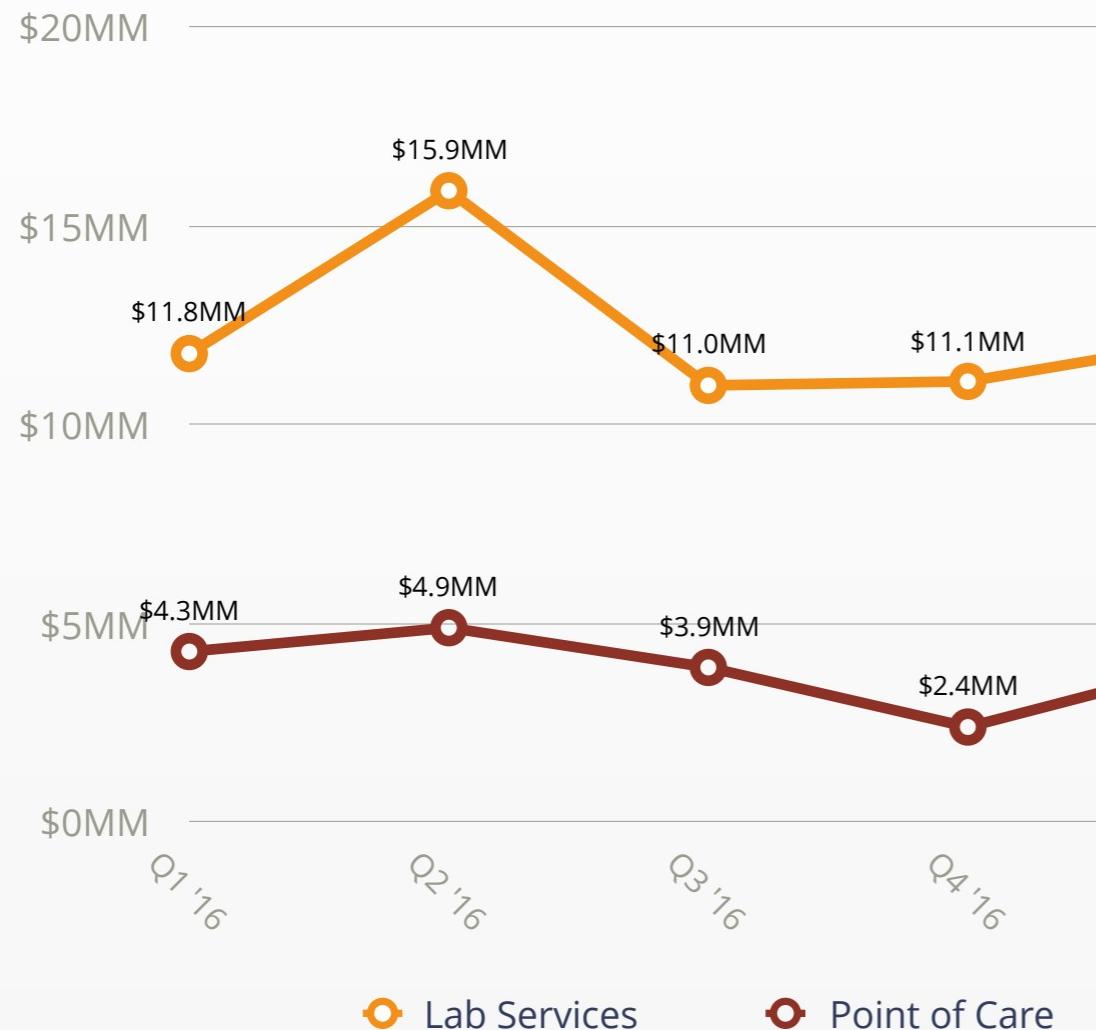
RIVER OAKS REPRESENTS THE THIRD SUCCESSFUL DE NOVO LAUNCH BY AAC IN THE PAST FOUR YEARS



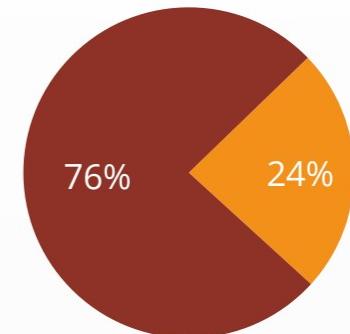
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# DIAGNOSTIC EVOLUTION

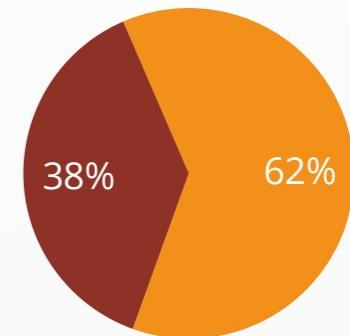
> AAC's diagnostic testing business has evolved over 3 years



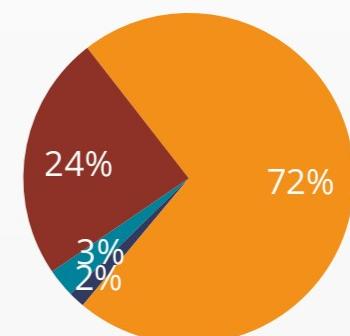
2014



2015



2016



- AAC Point of Care
- AAC Toxicology Lab
- AAC Blood / DNA Lab
- 3rd Party Lab

*Percentages based on total diagnostic testing revenue*



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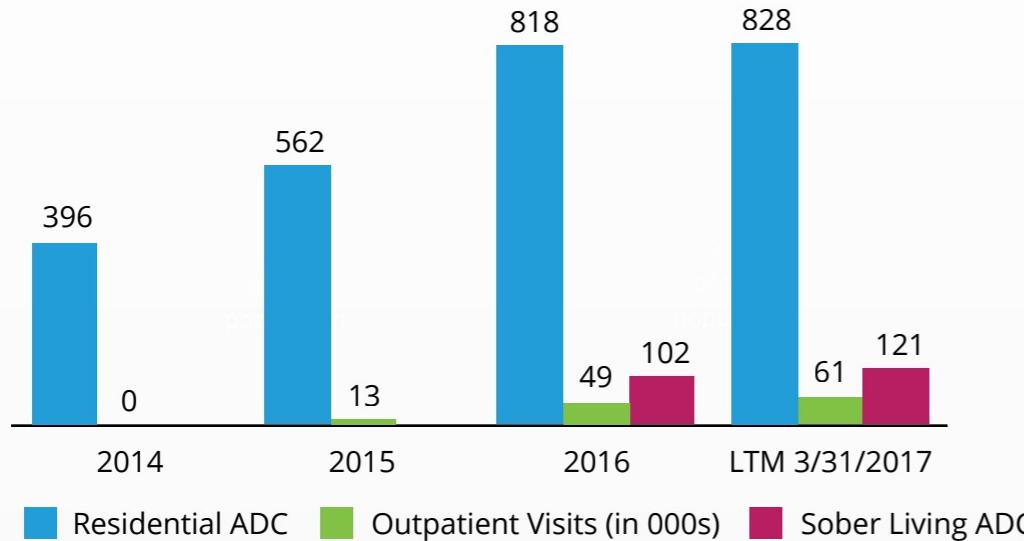
# OPERATING METRICS



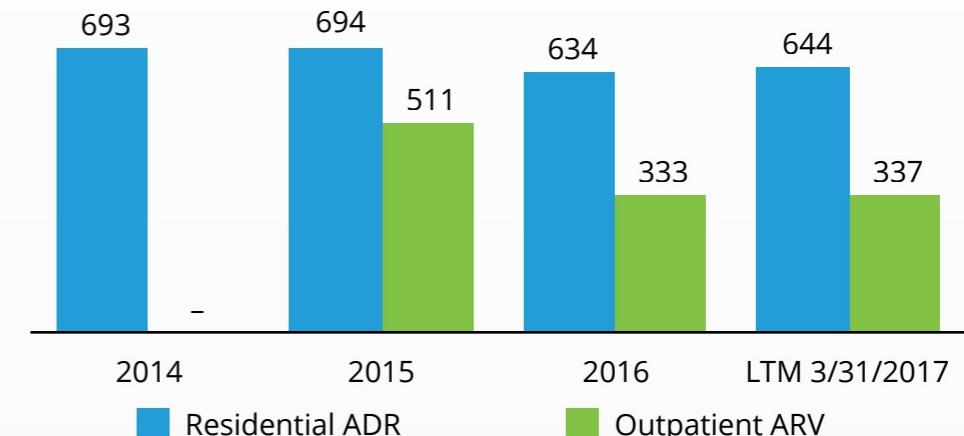
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# HISTORICAL FINANCIAL PERFORMANCE

Average Daily Census & Outpatient Visits



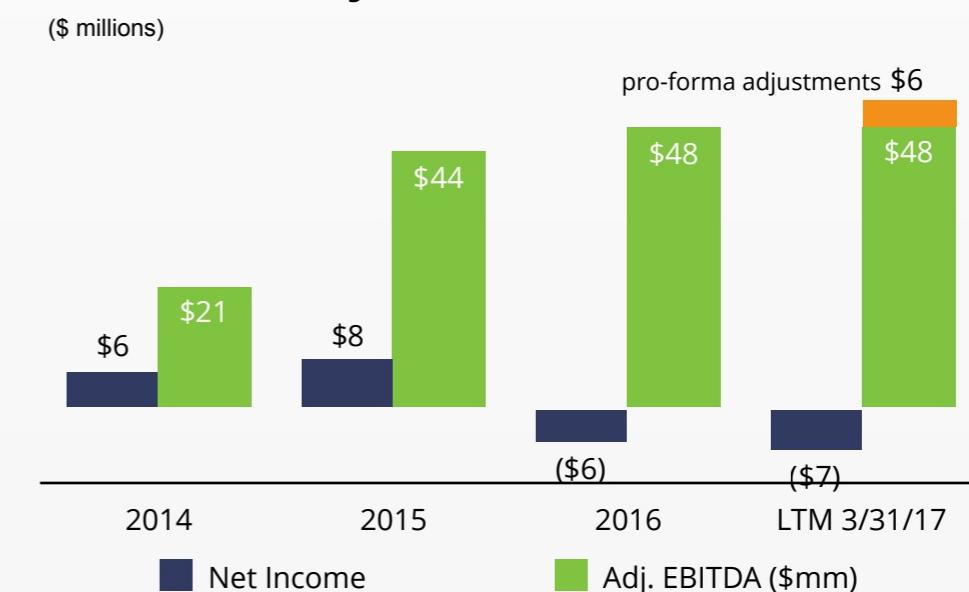
Average Daily Revenue / Revenue per visit



Total Revenues



Pro Forma Adjusted EBITDA<sup>(1)</sup>



(1) Please refer to the Appendix for a reconciliation of Pro Forma Adjusted EBITDA.



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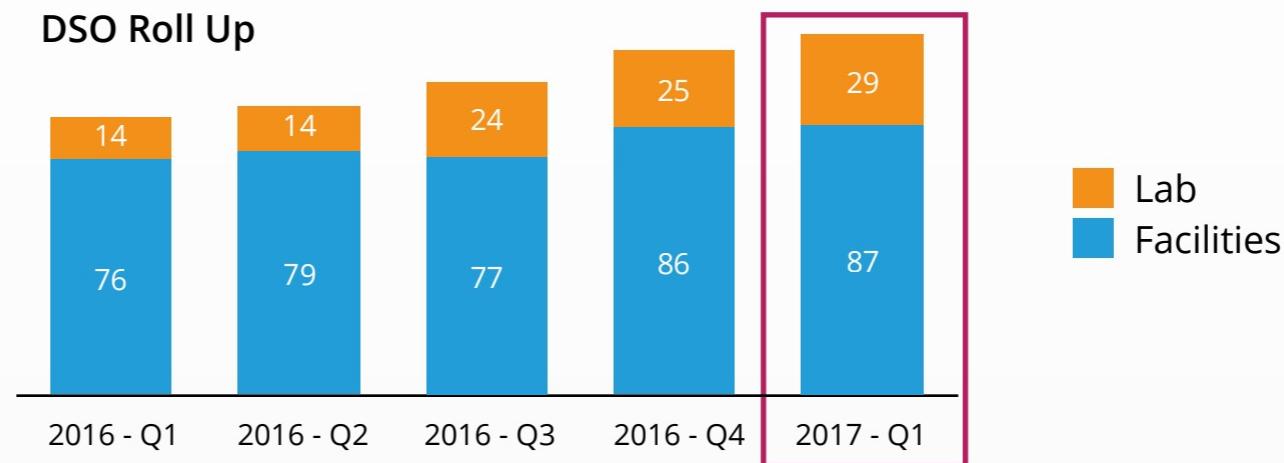
# DSO'S INCREASED, COLLECTIONS WERE STABLE

- > Payors are requesting more documentation before processing lab claims, significantly extending payment times
- > AAC plans to anticipate documentation requests and submit as much information with the initial claim
- > Increase in documentation requests prior to payment in OON facilities (primary at Desert Hope and Green House)
- > AAC working to streamline submission of medical records
- > Majority of AAC's out-of-network residential facilities and lab also switched clearinghouses from Q3'16 to Q1'17, which had a temporary negative impact on DSOs



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# 2017 DSO UPDATE



- > 1Q 2017 DSOs of 116 days represented a five day increase from 4Q 2016
- > Largely driven by one-time technical issues related to lab collections
  - Temporarily unable to bill for services for 20 days due to technical issues with clearing house
  - Internal conversion to new lab billing codes for 2017 caused another 23 day delay
- > These issues were resolved in March 2017
  - Collections in April have improved 6% compared to Q1 2017
- > Management expects DSOs to trend down to ~111 days in Q2 2017 and to ~100 days by 4Q 2017



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## APPENDIX

# APPENDIX: NON-GAAP FINANCIAL MEASURES

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Adjusted EBITDA and Adjusted Pro Forma Adjusted EBITDA, (herein collectively referred to as "Non-GAAP Disclosures") are "non-GAAP financial measures" as defined under the rules and regulations promulgated by the U.S. Securities and Exchange Commission, which is defined below. Management believes the Non-GAAP Disclosures provide investors with additional meaningful financial information that should be considered when assessing our underlying business performance and trends. We believe the Non-GAAP Disclosures also enhance investors' ability to compare period-to-period financial results. The Non-GAAP Disclosures should not be considered as measures of financial performance under U.S. generally accepted accounting principles ("GAAP"). The items excluded from the Non-GAAP Disclosures are significant components in understanding and assessing our financial performance and should not be considered as an alternative to net income (loss) or other financial statement items presented in the condensed consolidated financial statements. Because the Non-GAAP Disclosures are not a measure determined in accordance with GAAP, the Non-GAAP Disclosures may not be comparable to other similarly titled measures of other companies.

Management defines Adjusted EBITDA as net income (loss) adjusted for interest expense, depreciation and amortization expense, income tax expense (benefit), stock-based compensation and related tax reimbursements, litigation settlement and California matter related expense, acquisition-related expense (which includes professional services for accounting, legal, valuation services and licensing expenses), de novo start-up and other expenses, facility closure operating losses and expense (associated with The Academy and FitRx), gain on contingent consideration associated with our acquisition of Townsend, and bargain purchase gain associated with our acquisition of Sunrise House in the fourth quarter of 2015.

Management defines Adjusted Pro Forma EBITDA as net income (loss) adjusted for interest expense, depreciation and amortization expense, income tax expense (benefit), stock-based compensation and related tax reimbursements, litigation settlement and California matter related expense, acquisition-related expense (which includes professional services for accounting, legal, valuation services and licensing expenses), de novo start-up and other expenses, facility closure operating losses and expense (associated with The Academy and FitRx), gain on contingent consideration associated with our acquisition of Townsend, bargain purchase gain associated with our acquisition of Sunrise House in the fourth quarter of 2015, increased rent expense based upon contemplated sale/leaseback, effect of Q1 2017 workforce reduction, and run rate adjustment for Solutions acquisition.



# RECONCILIATION OF ADJUSTED EBITDA

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(\$ in thousands)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	LTM 3/31/2017
Net income (loss)	\$871	\$1,099	\$1,492	\$6,366	\$8,341	(\$5,741)	(\$7,116)
Add: Interest expense	337	980	1,390	1,872	3,607	8,175	9,207
Add: Income tax expense (benefit)	652	1,148	615	2,555	4,780	(1,220)	(1,765)
Add: Depreciation and amortization	195	1,288	3,003	4,662	7,837	17,686	19,240
Add: Stock-based compensation and related tax reimbursements	–	2,408	1,649	3,030	5,757	8,823	8,322
Add: Litigation settlement and California matter related expenses	–	–	2,588	487	5,446	8,690	6,524
Add: Reorganization expense	–	–	821	1,176	–	–	–
Add: Acquisition-related expenses	–	150	–	845	3,801	3,252	2,664
Add: De novo facility start-up and other expense	–	95	–	99	3,369	8,663	11,155
Add: Facility closure operating losses/expenses	–	–	–	–	3,114	771	771
Add: Employee severance expense	–	–	–	–	–	–	743
Less: Gain on contingent consideration	–	–	–	–	–	(1,350)	(1,350)
Less: Bargain purchase gain	–	–	–	–	(1,775)	–	–
<b>Adjusted EBITDA (as reported)</b>	<b>\$2,055</b>	<b>\$7,168</b>	<b>\$11,558</b>	<b>\$21,092</b>	<b>\$44,277</b>	<b>\$47,749</b>	<b>\$48,395</b>
Less: Additional rent from Sale and Leaseback transaction							(1,800)
Add: Pro forma effect of workforce adjustment (completed in February 2017)							6,965
Add: Pro forma run-rate adjustment for Solutions acquisition (completed in May 2016)							713
<b>Pro-forma Adjusted EBITDA</b>							<b>\$54,273</b>



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# CURRENT CAPACITY OVERVIEW

Facility	Beds		State	Payor	ADR	Property	Type	Anticipated Availability
	4/30/17	Pending						
Desert Hope	148		NV	OON	DTX, RTC, PHP, IOP		Owned	De novo
Greenhouse	130		TX	OON	DTX, RTC, PHP, IOP		Owned	De novo
Forterus	100		CA	OON	DTX, RTC, PHP, IOP		Leased	Original
San Diego "SDTC"	36		CA	OON	DTX, RTC, PHP, IOP		Leased	Original
Recovery First	72		FL	IN	DTX, RTC, PHP, IOP	Owned/Leased	Acquired	
Recovery First - West Palm Beach	65	-64	FL	IN	PHP. IOP		Leased	Acquired
Recovery First - Ft. Lauderdale East		84	FL	IN	PHP. IOP		Leased	De Novo
Oxford Treatment Center	124		MS	IN/OON	DTX, RTC, PHP, IOP		Owned	Acquired
Sunrise House	110		NJ	IN	DTX, RTC, PHP, IOP		Owned	Acquired
River Oaks	162		FL	OON	DTX, RTC, PHP, IOP		Owned	De Novo
Laguna Treatment Hospital	93		CA	OON	DTX, RTC, PHP, IOP		Owned	De Novo
Ringwood		150	NJ	IN/OON	DTX, RTC, PHP, IOP		Owned	De Novo
Townsend Treatment Center	32		LA	IN	DTX, RTC, PHP, IOP		Leased	Acquired
Townsend New Orleans		36	LA	IN	DTX, RTC, PHP, IOP		Leased	De Novo
Solutions Treatment Center	80		NV	IN	DTX, RTC, PHP, IOP		Leased	Acquired
Las Vegas Sober Living	138		NV	N/A		N/A	Owned/Leased	Acquired
Arlington Sober Living	80	75	TX	N/A		N/A	Owned/Leased	Acquired
Oxford Sober Living	24	48	MS	N/A		N/A	Owned/Leased	De Novo
<b>Total</b>	<b>1,394</b>	<b>329</b>						



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